

STATEMENT OF DAVID W. STONESIFER, CPA

Submitted to the Maine Milk Commission

Dealer Margin Adjustment

October 22, 2015

STATEMENT OF DAVID W. STONESIFER, CPA

MAINE MILK COMMISSION

My name is David W. Stonesifer and I am a CPA in the State of Pennsylvania. My address is 2763 Century Boulevard, Reading, PA 19610. I am a partner in the firm of Herbein + Company, Inc. a regional CPA firm that practices extensively and nationwide in the dairy processing industry. I attach my Curriculum Vitae, as Exhibit 1 which outlines my education, and experience in the dairy industry. I am familiar with the milk marketing conditions in Maine. Herbein + Company, Inc. has been engaged by the Maine Milk Commission to update the dealer margin (cost study). In this statement, I will present details as to the study conducted, will explain the attached exhibits which reflect our findings, and will provide other comments that I believe appropriate for the Maine Milk Commission's consideration in their task of adjusting dealer margins.

Background and Purpose of Study

The Maine Department of Agriculture, Food and Rural Resources – Maine Milk Commission – Chapter 29 – Dealer Margins states “the Maine Milk Commission is responsible for setting minimum wholesale and retail milk prices. Minimum wholesale prices paid to processors (dairies) are set to reflect the lowest price at which milk purchased from Maine producers can be received, processed, packaged, and distributed to retailers within the state at a just and reasonable return”. The Maine Milk Commission has engaged Herbein + Company, Inc. to study, review, and present costs which will satisfy the Commission's statutory requirement to conduct a cost study and to update dealer margins.

Study Conducted

The firm of Herbein + Company, Inc. reviewed the State of Maine statute, reviewed the prior cost studies, considered the milk manufacturing landscape in the state. We then determined that the largest two (2) Maine processing dairies should be included in the study and we gathered a significant volume of financial, manufacturing and distribution data from these operations. The procedures performed by the staff of Herbein + Company, Inc. were developed by me and all work and analysis conducted has been reviewed by me.

In our review of the prior cost studies which utilized “a model milk processing plant”, we decided that the utilization of theoretical information was not in the best interest of the milk industry in the State of Maine as it is our experience that modeled costing and projections many times vary significantly from actual costs incurred. This is identical to the theory of the study that was prepared by Herbein + Company in 2012.

Herbein + Company, Inc. maintains a significant data base of actual processing fluid milk dealer costs. The study we conducted includes utilizing the actual costs for two (2) Maine dairies studied along with 15 other dairies which are comparable to those doing business in the State of Maine. Their comparability was determined by a review of products produced, delivery methods utilized, the size of the market served, the size of the plant itself, analysis of how plastic containers are utilized (either blow molded on site or purchased) and also the economic conditions of the actual location of the plants utilized from the Herbein data base that are outside of the State of Maine.

Herbein + Company, Inc. has developed a methodology for adjusting costs economically and geographically when producing benchmarking reports and this procedure was applied to the 15 comparable dairies so that their costs are stated in an economic condition similar to Portland, Maine. U.S. Department of Labor economic statistics are used for this adjustment.

The costs for the 17 company data base were combined using a weighted average (based on volume) to arrive at the benchmarked averages.

The costs utilized were extracted from the calendar year 2014. The container cost reflected in the attached exhibits has been based upon an average cost for calendar year 2014.

The data base of Herbein + Company, Inc. maintains plant costs on a per point (quart) basis. The Maine dairies included in this study were adjusted to be in conformity with the Herbein data base as to methodology of combining and calculating costs. The average plant cost has been adjusted, utilizing a small container adjustment so that actual processing costs per container are reflected in the study. The operation of a fluid milk processing facility where containers of various sizes are processed reflect different costs by container size. The most efficient container is an in-line blow molded plastic gallon and the least efficient containers would be bulk dispensers and small containers such as half pints, and 4 oz. containers. The “small container adjustment”

calculates and reflects a reduction from average for the larger containers (gallon and half gallon) and an increase of above average for the smaller containers and dispensers.

This adjustment methodology has been utilized for many years in the State of Pennsylvania by the Pennsylvania Milk Marketing Board in its calculation of minimum wholesale prices.

The 15 out of state fluid milk plants included in our study include companies that blow mold on-site their containers and also those that purchase containers from outside vendors. The economic condition of the comparable companies is reflective of the condition within the Maine dairies. The delivery of milk products in a geographic region such as the State of Maine includes many long haul deliveries, numerous small deliveries, as well as tractor trailer deliveries to supermarkets. The comparable dairies include companies whose distribution area is as large as the State of Maine as well as companies delivering to supermarkets, convenience stores, schools, hospitals, and other institutions. It is my opinion that the comparable dairies are very reflective of the actual activities in the State of Maine.

Exhibits

Exhibits 2, 3, 4, 5 and 6 reflect the results of our study. The column entitled Current ME Statute reflects the costs currently included in the minimum price announcements issued by the Maine Milk Commission and are reflective of milk costs for September 2015. The column entitled Proposed Cost is reflective of the actual weighted average costs incurred by the 17 company group. The last column reflects the adjustment necessary to adjust the current dealer margin to that which has been calculated using the 17 company group. It is important to note that there is no margin or profit included in these calculations.

Exhibits 7, 8, 9, 10 and 11 are adjusted to include a reasonable rate of return.

In the “Background and statutory framework” of Chapter 29 – Maine Milk Commission the following language appears “minimum wholesale prices paid to processors (dairies) are set to reflect the lowest prices which milk processed from Maine producers can be received, processed, packaged, and distributed to retailers within the state at a just and reasonable return”.

In order to maintain a healthy dairy industry, a rate of return (profits) is necessary so that industry participants can afford to modernize their facilities, maintain a safe and healthy processing environment, and also

provide a reasonable rate of return to owners and operators. It is the finding of Herbein + Company, Inc. that a 2.5% rate of return is average (based upon our data base) and also reasonable when considering the needs of processors, and the effect on in-to-store pricing.

I believe that the Maine Milk Commission should consider this rate of return inclusion to be appropriate especially when combined with actual costs based on a substantial and representative group of processors. Historically, the utilization of theoretical costing, coupled with adjustments made to theoretical costs for Maine economic conditions has resulted in a “hidden profit”. I recommend that the Maine Milk Commission utilize the actual costs presented and include a reasonable rate of return to processors.

Conclusion

Thank you for considering the actual cost information presented in the report exhibits. I believe that the utilization of these statistics will allow the Maine Milk Commission to establish minimum wholesale milk prices that will satisfy the statutory requirements while providing a healthy environment for Maine processors.

David W. Stonesifer, CPA

Curriculum Vitae

EDUCATION

Albright College – B.S. Degree in Accounting (1996)
Presidential Scholar
Lewis D. Pepe Memorial Accounting Award Recipient

EMPLOYMENT

Herbein + Company, Inc., Reading, PA

October 2008 to present

Partner – Accounting & Auditing Department

Dairy Department Specialization – audit and compliance partner, dairy cost accounting, state regulatory price hearings, dairy industry consultant

June 2005 to September 2008

Senior Manager – Accounting & Auditing Department

July 2002 to May 2005

Manager – Accounting & Auditing Department

January 2000 to July 2002

Supervisor – Accounting & Auditing Department

June 1998 to January 2000:

Senior Accountant – Accounting & Auditing Department

July 1997 to June 1998:

Advanced Staff Accountant – Accounting & Auditing Department

September 1996 to July 1997:

Staff Accountant – Accountant & Auditing Department

February 1995 to April 1995:

Tax Department Intern

PROFESSIONAL AND CIVIC ASSOCIATIONS AND DESIGNATIONS

CPA – Commonwealth of Pennsylvania, State of Arizona, State of Missouri

Immediate Past President – Reading Chapter of Pennsylvania Institute of Certified Public Accountants

Executive Council Member – Pennsylvania Institute of Certified Public Accountants

Member – American Institute of Certified Public Accountants

Member – Pennsylvania Institute of Certified Public Accountants

Member – National Society of Accountants for Cooperatives – Capital Chapter

Chairman of Conference Planning Committee – National Society of Accountants for Cooperatives

Board Member – Albright College Business Advisory Council

Former Board Member and Finance Committee Member – YMCA of Reading & Berks County (2006 to 2008)

Former Board Member – Greater Reading Young Professionals Network

**Maine Milk Commission
Dealer Margin Hearings
Summary of Current and Proposed Dealer Margins - Plastic Quart**

	Current ME Cost	Proposed Cost	Increase (Decrease)
Processing		\$ 0.1343	
SG&A		0.0524	
Container		0.1153	
Dock Cost	\$ 0.3215	\$ 0.3020	\$ (0.0195)
Delivery	0.0865	0.1075	0.0210
Commission Fee Adjustment	0.0005	0.0005	-
Dealer Margin	\$ 0.4085	\$ 0.4100	\$ 0.0015
Milk Cost (1)	0.5187	0.5187	-
Into Store Cost	<u>\$ 0.9272</u>	<u>\$ 0.9287</u>	<u>\$ 0.0015</u>

(1) The milk costs utilized were as of September 2015

**Maine Milk Commission
Dealer Margin Hearings
Summary of Current and Proposed Dealer Margins - Plastic Half Gallon**

	Current ME Cost	Proposed Cost	Increase (Decrease)
Processing		\$ 0.1769	
SG&A		0.1048	
Container		0.1274	
Dock Cost	\$ 0.4253	\$ 0.4091	\$ (0.0162)
Delivery	0.1538	0.2149	0.0611
Commission Fee Adjustment	0.0011	0.0011	-
Dealer Margin	\$ 0.5802	\$ 0.6251	\$ 0.0449
Milk Cost (1)	1.0374	1.0374	-
Into Store Cost	<u>\$ 1.6176</u>	<u>\$ 1.6625</u>	<u>\$ 0.0449</u>

(1) The milk costs utilized were as of September 2015

**Maine Milk Commission
Dealer Margin Hearings
Summary of Current and Proposed Dealer Margins - Plastic Gallon**

	Current ME Cost	Proposed Cost	Increase (Decrease)
Processing		\$ 0.3444	
SG&A		0.2096	
Container		0.1756	
Dock Cost	\$ 0.6907	\$ 0.7296	\$ 0.0389
Delivery	0.3460	0.4299	0.0839
Commission Fee Adjustment	0.0022	0.0022	-
Dealer Margin	\$ 1.0389	\$ 1.1617	\$ 0.1228
Milk Cost (1)	2.0748	2.0748	-
Into Store Cost	<u>\$ 3.1137</u>	<u>\$ 3.2365</u>	<u>\$ 0.1228</u>

(1) The milk costs utilized were as of September 2015

**Maine Milk Commission
Dealer Margin Hearings
Summary of Current and Proposed Dealer Margins - 10 Quart Dispenser**

	Current ME Cost	Proposed Cost	Increase (Decrease)
Processing		\$ 1.9042	
SG&A		0.5239	
Container		0.7793	
Dock Cost	\$ 1.8855	\$ 3.2074	\$ 1.3219
Delivery	0.6921	1.0746	0.3825
Commission Fee Adjustment	0.0054	0.0054	-
Dealer Margin	\$ 2.5830	\$ 4.2874	\$ 1.7044
Milk Cost (1)	5.1871	5.1871	-
Into Store Cost	<u>\$ 7.7701</u>	<u>\$ 9.4745</u>	<u>\$ 1.7044</u>

(1) The milk costs utilized were as of September 2015

**Maine Milk Commission
Dealer Margin Hearings
Summary of Current and Proposed Dealer Margins - 20 Quart Dispenser**

	Current ME Cost	Proposed Cost	Increase (Decrease)
Processing		\$ 3.8182	
SG&A		1.0478	
Container		0.7793	
Dock Cost	\$ 3.7709	\$ 5.6453	\$ 1.8744
Delivery	1.3842	2.1493	0.7651
Commission Fee Adjustment	0.0108	0.0108	-
Dealer Margin	\$ 5.1659	\$ 7.8054	\$ 2.6395
Milk Cost (1)	10.3742	10.3742	-
Into Store Cost	<u>\$ 15.5401</u>	<u>\$ 18.1796</u>	<u>\$ 2.6395</u>

(1) The milk costs utilized were as of September 2015

**Maine Milk Commission
Dealer Margin Hearings
Summary of Current and Proposed Dealer Margins (including rate of return) - Plastic Quart**

	Current ME Cost	Proposed Cost	Increase (Decrease)
Processing		\$ 0.1343	
SG&A		0.0524	
Container		0.1153	
Dock Cost	\$ 0.3215	\$ 0.3020	\$ (0.0195)
Delivery	0.0865	0.1075	0.0210
Commission Fee Adjustment	0.0005	0.0005	-
Dealer Margin (before rate of return)	\$ 0.4085	\$ 0.4100	\$ 0.0015
Rate of Return on operating costs (2)	-	0.0103	0.0103
Milk Cost (1)	0.5187	0.5187	-
Rate of Return on milk costs (2)	-	0.0130	0.0130
Into Store Cost	<u>\$ 0.9272</u>	<u>\$ 0.9520</u>	<u>\$ 0.0248</u>

(1) The milk costs utilized were as of September 2015

(2) A 2.5% rate of return was applied to the dealer margin for the benchmark group

**Maine Milk Commission
Dealer Margin Hearings**

Summary of Current and Proposed Dealer Margins (including rate of return) - Plastic Half Gallon

	Current ME Cost	Proposed Cost	Increase (Decrease)
Processing		\$ 0.1769	
SG&A		0.1048	
Container		0.1274	
Dock Cost	\$ 0.4253	\$ 0.4091	\$ (0.0162)
Delivery	0.1538	0.2149	0.0611
Commission Fee Adjustment	0.0011	0.0011	-
Dealer Margin (before rate of return)	\$ 0.5802	\$ 0.6251	\$ 0.0449
Rate of Return on operating costs (2)	-	0.0156	0.0156
Milk Cost (1)	1.0374	1.0374	-
Rate of Return on milk costs (2)		0.0259	0.0259
Into Store Cost	<u>\$ 1.6176</u>	<u>\$ 1.7040</u>	<u>\$ 0.0864</u>

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**Maine Milk Commission
Dealer Margin Hearings**

Summary of Current and Proposed Dealer Margins (including rate of return) - Plastic Gallon

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Container		0.1756	
Dock Cost	\$ 0.6907	\$ 0.7296	\$ 0.0389
Delivery	0.3460	0.4299	0.0839
Commission Fee Adjustment	0.0022	0.0022	-
Dealer Margin (before rate of return)	\$ 1.0389	\$ 1.1617	\$ 0.1228
Rate of Return on operating costs (2)	-	0.0290	0.0290
Milk Cost (1)	2.0748	2.0748	-
Rate of Return on milk costs (2)		0.0519	0.0519
Into Store Cost	<u>\$ 3.1137</u>	<u>\$ 3.3174</u>	<u>\$ 0.2037</u>

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**Maine Milk Commission
Dealer Margin Hearings**

Summary of Current and Proposed Dealer Margins (including rate of return) - 10 Quart Dispenser

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Container		0.7793	
Dock Cost	\$ 1.8855	\$ 3.2074	\$ 1.3219
Delivery	0.6921	1.0746	0.3825
Commission Fee Adjustment	0.0054	0.0054	-
Dealer Margin (before rate of return)	\$ 2.5830	\$ 4.2874	\$ 1.7044
Rate of Return on operating costs (2)	-	0.1072	0.1072
Milk Cost (1)	5.1871	5.1871	-
Rate of Return on milk costs (2)		0.1297	0.1297
Into Store Cost	<u>\$ 7.7701</u>	<u>\$ 9.7114</u>	<u>\$ 1.9413</u>

(1) The milk costs utilized were as of September 2015

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**Maine Milk Commission
Dealer Margin Hearings**

Summary of Current and Proposed Dealer Margins (including rate of return) - 20 Quart Dispenser

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Processing		\$ 3.8182	
SG&A		1.0478	
Container		0.7793	
Dock Cost	\$ 3.7709	\$ 5.6453	\$ 1.8744
Delivery	1.3842	2.1493	0.7651
Commission Fee Adjustment	0.0108	0.0108	-
Dealer Margin (before rate of return)	\$ 5.1659	\$ 7.8054	\$ 2.6395
Rate of Return on operating costs (2)	-	0.1951	0.1951
Milk Cost (1)	10.3742	10.3742	-
Rate of Return on milk costs (2)		0.2594	0.2594
Into Store Cost	<u>\$ 15.5401</u>	<u>\$ 18.6341</u>	<u>\$ 3.0940</u>

(1) The milk costs utilized were as of September 2015

(2) A 2.5% rate of return was applied to the dealer margin for the benchmark group